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Tax Administration

Paperwork Burden Increasing on Taxpayers;

Rossotti Expects Improvements by 'New' IRS

An increase of 250 million hours in the burden on the public of complying with the tax system during 2000 resulted in an overall increase of 180 million hours in the burden on the public of federal agencies' collection of information, the General Accounting Office said April 24.

The Internal Revenue Service accounted for almost 83 percent of the total federal collection burden of 7.4 billion hours for 2000, J. Christopher Mihm of GAO told the Subcommittee on Energy Policy, Natural Resources and Regulatory Affairs of the House Committee on Government Reform. The figures are estimates that each agency must provide to the Office of Management and Budget under the Paperwork Reduction Act, Mihm said. Figures for 2001 should be available soon, he added.

The increase in the taxpayer burden was traceable to changes in IRS Form 1040 and Form 1040A, Mihm testified. "Efforts to control increases in the IRS-burden hour estimate should focus on these two collections," Mihm said.

In the past, Mihm said, IRS has blamed changes in the law for increases in the collection burden, but in 2000, "most of the increases involved changes made at the initiation of the agency," such as modifications to Form 1040 and its accompanying worksheets.

Rossotti Discusses Improvements

IRS Commissioner Charles O. Rossotti testified that IRS is making immediate changes to reduce the burden and hopes to make "long-term improvements" that will provide taxpayers with relief. "Through modernization efforts that pivot on business systems modernization and a new customer-focused organization, [IRS] can provide truly meaningful burden reduction," Rossotti said.

Rossotti highlighted several recent changes that have reduced the burden on taxpayers:

- changes to the threshold for depositing employment taxes, relieving 1 million small businesses of this requirement, and increased availability of the cash method of accounting to small business;
- changes to Schedule D of Form 1040 for reporting capital gains and to Form 1040A for reporting capital gain distributions from mutual funds;
- cross-checking taxpayer addresses with the Postal Service's master file, thus relieving taxpayers of reporting changes of address and ensuring proper delivery of refunds and correspondence;
- redesign of six notices to taxpayers (with 23 in the redesign process), which should reduce taxpayer contacts with IRS and facilitate resolution of inquiries;

- a checkbox on Form 1040 authorizing IRS to contact paid return preparers or other third parties about the tax return; and
- electronic filing of employment tax returns and payment of employment taxes.

IRS's "use of outreach, education, and assistance to prevent noncompliance" will increase the filing of correct returns, Rossotti said, thus relieving IRS and taxpayers of the burden of locating errors, sending communications, and making corrections.

IRS's Annual Report on Tax Complexity, required by the 1998 restructuring act, highlighted problems in fiscal year 2000 involving filing definitions, the individual alternative minimum tax, and estimated taxes, Rossotti said. The report for fiscal year 2001 should be out in a few months, he added.

AMT Burden; IRS Management Focus

Rep. Doug Ose (R-Calif.), chairman of the subcommittee, asked Rossotti what IRS was doing about reducing the burden of the alternative minimum tax. Rossotti said IRS was looking at this problem, but that the law's complexity gave IRS little leeway in simplifying the AMT form.

Rossotti said about 1 million taxpayers filed the form and paid the AMT, but that another 6 million taxpayers had to make the calculations required by the form before they could determine whether they owed the tax.

Ose suggested to Rossotti that IRS employees in the Senior Executive Service be evaluated on their ability to reduce the paperwork burden on taxpayers. Rossotti said IRS had identified employees who were responsible for taxpayer filings, and he said burden reduction could be added as a goal for these employees.

While committee members conceded that the tax law was part of the problem, they urged Rossotti and Austin Smythe of the Office of Management and Budget to pay closer attention to the tax reporting burden, and they encouraged Rossotti to increase IRS meetings with taxpayers to obtain feedback on the reporting burden.

Text of Rossotti's testimony is in BNA Tax Core 

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